

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 SS-15 SP-02 IO-13 AID-05
STR-07 COME-00 FRB-03 TRSE-00 OMB-01 XMB-02 L-03
H-01 ICA-11 CIAE-00 INR-10 NSAE-00 NSC-05 HA-05
/102 W

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R 211655Z JUN 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7974
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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EO 11652 NA
TAGS EFIN BR
SUBJECT: IDB REPLENISHMENT

REF: A. STATE 141137 B. STATE 154116 C. STATE 154399

1. SUMMARY- GOB WAS SURPRISED BY US POSITION IN MADRID AND IS VERY SKEPTICAL THAT ISSUES RAISED BY US CAN BE RESOLVED TO OUR SATISFACTION. WHILE BRAZILIAN DELEGATION TO WASHINGTON MEETING WILL BE PREPARED TO DISCUSS ANY SUBJECT, IT SUPPORTS IDB PROPOSED LEVEL OF REPLENISHMENT AND FEWER MODIFICATIONS OF CURRENT BANK OPERATIONS AND PRIORITIES THAN US. GOB SEENS CERTAIN US OBJECTIVES AS INCONSISTENT AND BELIEVES US EXECUTIVE BRANCH HAS RESPONSIBILITY TO CONVINCE CONGRESS OF VALUE AND IMPORTANCE OF IDB TO BOTH US AND LATIN AMERICA. END SUMMARY

2. IN ACCORDANCE WITH REFTELS B AND C FINATT CALLED ON LUIZ BARBOSA OF CENTRAL BANK AND ALSO CONVEYED STATEMENT OF US POSITION TO IFI OFFICER IN INTERNATIONAL DIVISION OF FINANCE MINISTRY AND TO FINANCIAL

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POLICY DIVISION OF FOREIGN MINISTRY. BARBOSA SAID THAT BRAZILIAN DELEGATION TO WASHINGTON MEETING ON IDB REPLENISHMENT WILL CONSIST OF CENTRAL BANK DIRECTOR FERNAO BRACHER (GOVERNOR), FINANCE MINISTRY INTERNATIONAL DIVISION CHIEF ARY PINTO (ALTERNATE GOVERNOR), BARBOSA OF CENTRAL BANK'S EXTERNAL AREA, AND PAULO BARBOSA CESAR OF CENTRAL BANK'S ECONOMIC DEPARTMENT. THEY WILL ARRIVE IN WASHINGTON ON MON, JUNE 26 AND WILL BE AVAILABLE FOR BILATERAL CONTACTS ON

TUES-WED, JUNE 27-28.

3. BARBOSA PARTICIPATED IN THE MADRID MEETING AND ALREADY HAD THE STATEMENT OF THE US POSITION. NONETHELESS, HE LISTENED CAREFULLY AND TOOK NOTES AS FINATT REITERATED THE POINTS SET FORTH IN REFTEL B. AFTER EXPRESSING BASIC UNDERSTANDING OF THE RATIONALE UNDERLYING US PROPOSED REFORMS, BARBOSA QUOTE SPEAKING FRANKLY END QUOTE SAID THAT QUOTE GOB WAS ASTONISHED BY US POSITION BECAUSE US APPEARS TO WANT TO SIGNIFICANTLY REDUCE OVERALL LEVEL OF REPLENISHMENT AND RELATIVE US PARTICIPATION BUT AT SAME TIME INSIST ON FAR-REACHING CHANGES IN IDB'S OPERATIONAL PRIORITIES END QUOTE. HE SAID THAT ON THE BASIS OF HIS INVOLVEMENT IN IFIS OVER NUMBER OF YEARS HE APPRECIATES IMPORTANCE OF US CONGRESSIONAL ATTITUDES BUT HE BELIEVES US EXECUTIVE BRANCH HAS RESPONSIBILITY TO CONVINCE CONGRESS OF THE IMPORTANCE OF THE IDB TO THE US AS WELL AS TO LATIN AMERICA. BARBOSA CITED THE BENEFITS OF IDB LOANS TO US EXPORTERS AND HE STRESSED THAT BRAZIL'S INTERNAL MARKET ASSURES THAT IDB LENDING TO BRAZIL CONTRIBUTES TO INCREASED INTERNAL PRODUCTION AND CONSUMPTION AND NOT SIMPLY TO INCREASED BRAZILIAN EXPORTS.

4. REGARDING SPECIFIC ASPECTS OF THE US POSITION, BARBOSA SAID THAT IN THEORY THE PROPOSED INCREASED EMPHASIS ON HARD WINDOW LENDING SHOULD BENEFIT BRAZIL. HOWEVER, HE SAID THAT THE ADVANCED DEVELOPED COUNTRIES (ARGENTINA, BRAZIL, AND MEXICO) WERE PROMISED HIGHER LEVEL OF ORDINARY AND NON-REGIONAL CAPITAL (OC/NRC) LOANS IN RETURN FOR WITHDRAWING FROM THE FSO IN THE LAST REPLENISH-LIMITED OFFICIAL USE

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MENT BUT THAT THE INCREASED LOAN LEVELS DID NOT MATERIALIZE. BARBOSA ALSO SAID THAT THE US DESIRE FOR MORE COUNTRIES TO GRADUATE FROM FSO WOULD CAUSE MORE BORROWING PRESSURE ON OC/NRC TO THE DETRIMENT OF BRAZIL AND OTHERS. FINALLY, HE ARGUED THAT THE IDEA OF INCREASED COMPLEMENTARY FINANCING FOR THE ADVANCED DEVELOPING COUNTRIES WOULD APPEAR TO SUBSTITUTE RATHER THAN

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TRULY COMPLEMENT IDB LENDING.

5. THE GOB IS SYMPATHETIC WITH THE US DESIRE FOR MORE EFFICIENT USE OF IDB RESOURCES. HOWEVER, BARBOSA SAID THE GOB SEES VALUE IN THE IDB RESIDENT REPRESENTATIVE OFFICES AND HE NOTED THAT RISING LENDING COUPLED WITH RELATIVELY STABLE STAFFING IN RECENT YEARS ALREADY INDICATES INCREASING IDB OPERATIONAL EFFICIENCY. AS REGARDS THE USE OF THE IDB'S NON-CONVERTIBLE CURRENCIES, BARBOSA SAID THAT BRAZIL HAS GREATLY REDUCED IDB HOLDINGS OF CRUZEIROS BY INCREASED UTILIZATION OF THEM FOR PROJECTS LOCAL COSTS.

6. BARBOSA AGREED WITH THE GENERAL THRUST OF THE US EMPHASIS ON CONCENTRATING LENDING ON THE POOR BUT EXPRESSED CERTAIN RESERVATIONS. HE SAID THE GOB IS CONCERNED WITH THE TREND IN THE US TO CONSIDER BRAZIL AS NO LONGER A DEVELOPING COUNTRY (FOREIGN MINISTRY OFFICIALS HAVE CONVEYED THIS CONCERN TO EMBASSY OFFICERS ALSO). BARBOSA FEARS THAT INCREASING EMPHASIS ON THE POOR WILL FAIL TO RECOGNIZE THE EXISTENCE OF SERIOUS POCKETS OF POVERTY IN BRAZIL. IN THIS CONTEXT HE STRESSED THAT DEVELOPMENT BANK LOANS FOR MAJOR INFRASTRUCTURE PROJECCTS NOT ONLY ULTIMATELY BENEFIT THE POOR BUT ARE STILL VERY IMPORTANT TO BRAZIL AS SOURCES OF TECHNICAL LIMITED OFFICIAL USE

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ASSISTANCE AND ESSENTIAL FINANCING IN THE INITIAL STAGES WHEN PRIVATE LENDERS ARE RELUCTANT TO COMMIT THEMSELVES. BARBOSA ALSO STATED THAT THE EMPHASIS ON LENDING TO THE POOR IS SOMEWHAT INCONSISTENT WITH THE OBJECTIVE OF MAXIMIZING FINANCING OF FOREIGN EXCHANGE COSTS BECAUSE THE SOCIAL PROJECTS THAT MOST BENEFIT THE POOR USUALLY HAVE HIGH PROPORTIONS OF LOCAL COSTS.

7. AS REGARDS INCREASED BURDEN-SHARING OF THE CONVERTIBLE CURRENCY COSTS OF IDB OPERATIONS BARBOSA ACKNOWLEDGED THE DESIRABILITY OF LARGER CAPITAL SUBSCRIPTIONS AND CONTRIBUTIONS FROM NON-REGIONAL MEMBERS. HOWEVER, HE EXPRESSED ANNOYANCE WITH THE FACT THE NON-REGIONALS GAINED MEMBERSHIP AT RELATIVELY LOW COSTS. HE SAID BRAZIL DOES NOT ESPECIALLY WANT TO ACCEPT REDUCTION IN ITS VOTING POWER. ALSO HE BELIEVES THAT THE EFFORT TO INSIST ON INCREASED CONVERTIBLE CURRENCY CONTRIBUTIONS FROM THE ADVANCED DEVELOPING COUNTRY

MEMBERS IS UNACCEPTABLE BECAUSE IT IMPLIES THAT A RELATIVELY GREATER PROPORTION OF THE REPLENISHMENT BURDEN WOULD FALL ON BRAZIL, ARGENTINA, AND MEXICO. FINALLY, BARBOSA EXPRESSED HIS DISAPPOINTMENT THAT THE US CONGRESS DOES NOT ACCEPT THE DISTINCTION BETWEEN CALLABLE AND PAID-IN CAPITAL AND THAT IT NOW INSISTS ON APPROPRIATIONS FOR THE FORMER AS WELL AS THE LATTER. IN THIS INSTANCE, AND WITH RESPECT TO MOST OF HIS COMMENTS, BARBOSA REFLECTED ACCURATELY VIEWS ALSO EXPRESSED TO EMBASSY OFFICIAL BY BRACHER AND FINANCE MINISTRY OFFICIALS ON OTHER OCCASIONS. SAYRE

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